GOVERNMENT OF INDIA
RAILWAYS
LOK SABHA

STARRED QUESTION NO:271
ANSWERED ON:01.08.2002
DISINVESTMENT OF RITES AND IRCON
SUBODH MOHITE

Will the Minister of RAILWAYS be pleased to state:

(a) whether the Railways are not in favour of disinvestment in Rail India Technical & Economic Services Limited and Indian Railway Construction Corporation;

(b) if so, the details thereof along with the reasons therefor;

(c) the recommendations of Disinvestment Commission in regard to these PSUs; and

(d) the reaction of the Railways thereon?

Answer

MINISTER OF RAILWAYS (SHRI NITISH KUMAR)

(a) to (d): A Statement is laid on the Table of the Sabha.

STATEMENT REFERRED TO IN REPLY TO PARTS (a) TO (d) OF STARRED QUESTION NO.271 BY SHRI SUBODH MOHITE BE ANSWERED IN LOK SABHA ON 01.08.2002 REGARDING DISINVESTMENT OF RITES AND IRCON

(a): Ministry of Railways is not in favour of disinvestment in Rail India Technical & Economic Services (RITES) and Indian Railway Construction Corporation (IRCON International Ltd.)

(b): RITES is a consultancy organization under the Ministry of Railways which carries out studies as required by the Indian Railways, clients railways abroad and other sectors. RITES also is in the business of export of rolling stock and inspection of materials procured by the railways. IRCON is in the field of construction of railway projects which are of specialized nature. The Ministry is not in favour of disinvestments of Rail India Technical & Economic Services Ltd. (RITES) and Indian Railway Construction Corporation (IRCON International Ltd.) for the following reasons:

i) IRCON & RITES being construction and consultancy organizations can keep only a small work force on permanent basis. In the existing scenario of stiff competition in the construction industry, both in domestic and international market, only companies which are lean with respect to their fixed cadre can sustain their profits. Presently the skills for undertaking rail related consultancies are acquired by RITES through personnel on deputation from railways. After disinvestments it will not be possible to induct railwaymen into RITES. It will affect the competence of the organization to carry out rail related consultancy in India and abroad.

ii) Activities of RITES/IRCON abroad afford an opportunity to railway personnel to observe developments which benefit the railway officers on repatriation.

iii) Indian Railways have got surplus manufacturing capacity in production units for manufacture of locomotives and coaches. RITES and IRCON are the export arms of Indian Railways for export of locomotives, coaches, etc. For export of locomotives and coaches, a close coordination between Railway Research, Design and Standards Organisation, Indian Railway manufacturing units and RITES is required. The railway rolling stock requirement varies from country to country and considerable design inputs and manufacturing effort is required in most cases, e.g. the Indian Railways in association with RITES and IRCON have developed locomotive suitable for 'Cape Gauge' which is prevalent in some African countries and Southeast Asian countries.

iv) RITES also carries out independent third party acceptance testing for components procured by the Indian Railways. If RITES were to be disinvested, Indian Railways would have to create a new organisation for this.

v) Many of the projects undertaken abroad for construction and for operation of railway system are given to the PSUs on the strength of Indian Railways backing, e.g. the Letter of Intent given by the Malaysian Govt. for construction of US$ 1.5 billion Ipoh-Padang Besar doubling project on single tender without going through the process of formal tendering is only on the strength of the backing of Ministry of Railways, Government of India. Similarly, the contracts for operation management of Railway System in Colombia and Zambia have been secured by RITES based on the Railway operating experience of Indian Railways.

(c): Disinvestment of IRCON Intrnational Ltd. is under examination by Disinvestment Commission, who have yet to make their recommendations.

For Disinvestment in RITES, Commission has recommended that:

(i) A minimum of 51% of the Government equity may be given to employees (both present and past) of RITES. Government may retain 25% of the equity. Balance equity may be distributed among reputed infrastructure consultancy organisation and infrastructure leasing and financing organisations after suitable pre-qualification;

(ii) The Railways should have an agreement with RITES under which continuous induction of talented railway personnel would be guaranteed for a period of 5 years.

In addition, the Disinvestments Commission has also suggested:

iii) RITES should develop consultancy expertise outside railway area with a view to increase non-railway consultancy business.

iv) Export of rolling stock handled by the RITES can be handled directly by the Railways.

v) Inspection work related to quality assurance of purchased items presently entrusted to RITES may be handled by the Ministry of Railways.

(d): Ministry of Railways have not agreed to the recommendations and suggestions of Disinvestment Commission for disinvestments of RITES as listed in question 'C' above for the following reasons:

(i) the present net worth of RITES is Rs. 158 crores and the share capital is Rs. 2 crores.For sale of 51% of shares to employees, the Government should be able to realize 51% of the net worth i.e. Rs. 80 crores approximately. Thus the hundred rupee share would have to be sold for approximately Rs. 7800/-. Also the expected annual dividend of Rs. 3 crores, would yield an average return of only 1.9% to the employees. To realize Rs. 80 crores through employees as recommended by the Disinvestment Commission, on the average investment of the present employees of RITES would be in the range of Rs. 3.5 lakhs per employee if all the present employees opt for it. This may not be possible.

(ii) Deputation of railway personnel to RITES, after disinvestments, would not be possible.

(iii)Disinvestment Commission's suggestion that RITES may develop expertise in non-railway business, after disinvestments, would defeat the very purpose for which RITES was initially set- up.Indian Railways' requirement of consultancy expertise in railway area, would get diluted and may not be available after sometime as availability of railway expertise in RITES dwindles.

(iv) The export of rolling stock was delegated to RITESonly because Indian Railways was unable to handle it directly through government departmental setup. The recommendation if accepted would immediately effect export of Railway rolling stock and Indian Railways efforts to utilize spare capacity available in workshops.

(v) The work of quality assurance for purchase items was hived off as a non-core activity to RITES as an independent third party.If Ministry of Railways were to carry out inspection work, they would need to create an organization for the same at a time when Indian Railways are making every effort to contain growth of manpower.